

BUDGET HEARING
**FY 2005 BUDGET REQUEST FOR DEBT SERVICE,
CERTIFICATES OF PARTICIPATION, TOBACCO
TRANSFER, CASH RESERVES, AND TAX INCREMENT
FINANCING PROGRAM**

**Before the
Committee of the Whole
Council of the District of Columbia**

The Honorable Linda W. Cropp, Chairman

**April 21, 2004, 11:30 a.m.
John A. Wilson Building, Room 120**



**Testimony of
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Associate Treasurer
Office of Finance and Treasury**

**Natwar M. Gandhi
Chief Financial Officer
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Good afternoon, Chairman Cropp and members of the Committee of the Whole. I am Lasana Mack, Associate Treasurer in the Office of Finance and Treasury, part of the Office of the Chief Financial Officer. Thank you for the opportunity to appear before you. In my testimony today, I will briefly discuss the proposed FY 2005 debt service budget for both long-term and short-term debt, as well as the District's Certificates of Participation. In addition, I will address the budgeting for Tobacco Transfer, Cash Reserves, and Tax Increment Financing.

Before delving into those specifics, however, I think it is appropriate to acknowledge the very recent increase in the credit rating of the District's outstanding general obligation bonds by Moody's Investors Service from Baa1 to A2, a two-notch increase that represents a significant accomplishment for all District stakeholders.

Long-term Debt Service

The proposed FY 2005 debt service budget totals \$349.5 million on total projected long-term debt of approximately \$3.9 billion. This represents an increase of approximately \$38 million over the approved FY 2004 long-term debt service budget of \$311.5 million. This increase is due to the combination of new debt to be issued in the first quarter of FY 2005 and increased principal amortization in FY 2005 on some of our existing bonds.

The FY 2005 proposed debt service budget assumes that the District will borrow approximately \$400 million in the first quarter of FY 2005 to support the District's

on-going Capital Improvements Plan (CIP). This is consistent with the proposed FY 2005 CIP.

Short-term Debt Service

The proposed FY 2005 budget for short-term debt service is \$4 million. This represents an increase of \$1 million over the approved FY 2004 funding level. The FY 2004 short-term borrowing amount was \$250 million. The FY 2005 request assumes a short-term borrowing in the range of \$250 million to \$300 million in FY 2005, and assumes a slightly higher interest rate than the record-low rate obtained with the FY 2004 borrowing. We could not develop FY 2005 cash flows until the proposed budget was completed, and my staff is currently working toward finalizing the production of such cash flows. We expect to transmit projected FY 2005 cash flows to the Council within one week.

Certificates of Participation

The District's Certificates of Participation (COPs) budget category now includes two series of COPs, one issued to finance the land for the One Judiciary Square facility and one issued last year to finance the DC-Net/Unified Communications Center project. The increase from the approved FY 2004 budget of \$4.9 million to \$15.2 million proposed in FY 2005 is the result of two factors: 1) FY 2005 is the first year of debt service on the new COPs; and 2) the "old" COPs were refunded (refinanced) in the first quarter of FY 2003 at lower interest rates, producing debt service savings in FY 2003 and FY 2004; but in FY 2005, the debt service on these COPs returns to its previous level of approximately \$8 million.

Tobacco Transfer

As the Council is aware, the FY 2005 proposed budget does not include any amounts to be transferred to the Tobacco Trust Fund. The debt service savings from the Tobacco Securitization have been allocated within the general fund to help balance the budget, and the receipt of Tobacco “Residuals” for FY 2005 is very uncertain.

Cash Reserves

In FY 2002 the District fully funded its Emergency and Contingency Cash Reserve Funds at their maximum required levels, totaling \$248 million, or 7% of the local expenditure budget. This was a significant accomplishment, achieved five years ahead of the Congressionally-required time frame. In order to maintain the 7% level, the total of Cash Reserves was increased to \$254 million by the end of FY 2003. The proposed FY 2005 Budget and Financial Plan includes additional deposits into the Cash Reserves to bring them up to \$285 million and \$303 million by the end of fiscal years 2004 and 2005, respectively. This keeps the Emergency Reserve funded at its required 4% level, but does not provide additional funding for the Contingency Reserve, other than the interest that will accrue on the funds already there, until the Contingency Reserve is required to be brought to the 3% level in FY 2007. (It is required to be funded at 1% in FY 2005 and 2% in FY 2006, and its current funding level already exceeds those requirements.)

Tax Increment Financing

The Tax Increment Financing (TIF) line item in the proposed FY 2005 Budget and Financial Plan represents the TIF Budgeted Reserve that the District agreed to budget each year in conjunction with the Gallery Place and Mandarin Hotel TIF bond issuances. The budgeted amount, \$9.71 million, represents the sum of the

debt service on those two bond issuances in FY 2005 and in subsequent years, which is the amount that the District is required by Council resolution (executed in conjunction with the bond issuances) to budget as a reserve in the event that incremental revenues from these projects is insufficient to cover the debt service on them. However, these funds are not expected to be expended, as it is expected that the incremental revenues from these projects will be sufficient to cover the debt service on them. As such, the \$9.71 million budget in the TIF line item for FY 2005 is expected to fall to the bottom line, i.e., the Fund Balance, and then it is expected that subsequent years' budgets will include a provision allowing the District to use this amount from the Fund Balance to cover or offset the TIF Reserve line item in the budget.

Madame Chairman, this concludes my testimony. I am prepared to address any questions that you or other members of the Committee may have.

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